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Financial accounting and reporting by hospitals operated by a governmental unit, July 31, 1978 : proposal to the Financial Accounting Standards Board to amend AICPA industry audit guide, Audits of state and local governmental units; Statement of position 78-07;

American Institute of Certified Public Accountants. Accounting Standards Division

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**Statement of  
Position  
on**

**78-7**

**Financial Accounting and  
Reporting by Hospitals  
Operated by a  
Governmental Unit**

**July 31, 1978**

**Proposal to the  
Financial Accounting Standards Board  
to Amend AICPA Industry Audit Guide  
*Audits of State and Local Governmental Units***

**Issued by  
Accounting Standards Division**

**American Institute of  
Certified Public Accountants**

**AICPA**

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## **NOTES**

Statements of position of the accounting standards division are issued for the general information of those interested in the subject. They present the conclusions of at least a majority of the accounting standards executive committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting and cost accounting.

The objective of statements of position is to influence the development of accounting and reporting standards in directions the division believes are in the public interest. It is intended that they should be considered, as deemed appropriate, by bodies having authority to issue pronouncements on the subject. However, statements of position do not establish standards enforceable under the Institute's code of professional ethics.



American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, N.Y. 10036 (212) 575-6200

July 31, 1978

Donald J. Kirk, CPA  
Chairman  
Financial Accounting Standards Board  
High Ridge Park  
Stamford, Connecticut 06905

Dear Mr. Kirk:

The accompanying statement of position, Financial Accounting and Reporting by Hospitals Operated by a Governmental Unit, has been prepared by the accounting standards division.

The statement is an amendment of the AICPA Industry Audit Guide, Audits of State and Local Governmental Units, issued in 1974 and presents the division's recommendation for the accounting and reporting by hospitals operated by a governmental unit.

Representatives of the division are available to discuss this proposal with you or your representatives at your convenience.

Sincerely,

A handwritten signature in cursive script, reading "Arthur R. Wyatt".

Arthur R. Wyatt, Chairman  
Accounting Standards Division

cc: Securities and Exchange Commission

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# Financial Accounting and Reporting by Hospitals Operated by a Governmental Unit

The AICPA Industry Audit Guide, *Hospital Audit Guide*, does not specifically address the financial accounting and reporting practices of hospitals that are operated by a governmental unit but states that the practices it discusses apply to all hospitals. The AICPA Industry Audit Guide, *Audits of State and Local Governmental Units*, effectively includes government operated hospitals within its scope. That overlap has raised questions concerning the financial accounting and reporting practices that should be followed by hospitals operated by governmental units.

Different views exist about whether the financial activities of a hospital operated by a governmental unit should be accounted for as an enterprise fund or as a special revenue fund. Hospitals accounted for as enterprise funds usually follow practices comparable to those discussed in the *Hospital Audit Guide*, and hospitals accounted for as special revenue funds follow the practices discussed in *Audits of State and Local Governmental Units*. Since these accounting practices differ significantly, the accounting standards division believes that *Audits of State and Local Governmental Units* should be amended to provide for uniformity in the financial reporting of hospitals.

## The Division's Conclusion

Some government operated hospitals have been accounted for as special revenue funds and others as enterprise funds, depending on the source of funding. The accounting standards division believes, however, that the source of revenues should not determine the accounting practices followed by hospitals. If all government operated hospitals followed the *Hospital Audit Guide* and were accounted for as enterprise funds, more comparable financial statements within the hospital industry would result. The division therefore believes that *Audits of State and Local Governmental Units* should be amended by the addition of

the following paragraph (and its accompanying footnote) as the first full paragraph on page 14 of the guide.

Hospitals that are operated by governmental units should follow the requirements of the AICPA's *Hospital Audit Guide*. Since the accounting recommended in that guide can best be accommodated in the enterprise funds, such funds should be used in accounting for governmental hospitals.\*

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\*See page 1 of the *Hospital Audit Guide* for a discussion of the types of hospitals covered.

## **Transition**

This statement should be applied for fiscal years beginning after June 30, 1979. Earlier application of the statement of position is encouraged. The recommendations should be applied retroactively by prior-period adjustments, that is, reflected as adjustments of opening fund balances of the earliest years presented. When financial statements for periods before June 30, 1979, are presented, they should be restated to reflect the prior-period adjustments. The nature of the restatements and their effects should be disclosed in the period of change.